# The Biggest Trade Secret Loophole You've Never Heard Of

April 20, 2018 by James Pooley

Here in the U.S. we have a litigation system for pre-trial "discovery" that allows access to virtually every email and every record a company owns. It costs businesses more than $40 billion every year. Foreign countries, where there is no "discovery," sneer at this self-inflicted injury, and foreign companies do all they can to avoid getting involved in it.

Except when we give them a free pass to visit and try it out.

What would you think if I told you that anyone from France or China or Brazil that was just thinking about some legal action in their country could come here and easily force discovery from a U.S. company, even though they couldn't dream of getting the same information through their home courts? Crazy, right? That is exactly what has resulted from a law that's so obscure it doesn't even have a name, so we call it by its legal citation: 28 U.S.C. Section 1782.

Congress put Section 1782 on the books decades ago, motivated by the generous impulse to help foreign courts and litigants get information they needed, and to encourage foreign countries to pass similar laws that would give our citizens the same kind of access. On the first objective, the law has been a resounding success. In recent years petitions under Section 1782 have grown to over sixty per year.

On the second one, here's a quick quiz: how many countries do you think have enacted laws inviting our litigants to come and get discovery from their corporations? Sorry, no prize for guessing the correct answer, zero. In fact, a number of countries have responded rather rudely by passing laws that prohibit any use inside their borders of otherwise reliable information, just because it is the product of the U.S. discovery system.

But we have forged ahead anyway with our unilateral offer, nursing the hope that someone will emulate our generosity. What exactly is the offer? Under Section 1782, any "interested person" can petition a U.S.

federal court to force someone “found” here to produce documents and testimony for use in a foreign “proceeding.”

It used to be that everyone assumed that getting an order like this would be at least modestly difficult. Naturally the discovery would have to be really helpful, and so you would have to show at least that the information would be admissible in the foreign court. And of course it had to be a court that wanted it, to help inform a proceeding that was, well, proceeding. And the petitioner, you would assume, would have to be a party to that foreign proceeding.

All of these were reasonable assumptions, but they all turned out to be wrong. About 15 years ago AMD tried to use Section 1782 to get discovery from Intel that it could then turn over to the European Commission, which it hoped would begin antitrust enforcement against its competitor. The federal district court denied the petition: no proceedings were underway, only “contemplated.” No foreign court was involved, only a government agency. AMD was not a party. And if the information had been located in Europe it would not have been accessible to the Commission.

The U.S. Supreme Court reversed, holding that the statute was broadly worded, and if Congress wanted to put limitations on it, it had to say so. Needless to say, this ruling caused a lot of lawyers to dust off their statute books and take another look at Section 1782, causing a dramatic uptick in filings. In fact, some law firms are now marketing this law to foreign companies as a way to collect information that they couldn’t get in their home courts.

Congress has taken notice, and the House Judiciary Committee recently held a hearing at which I was invited to testify. There I described the Section 1782 process as a “one way street for the acquisition and export of U.S. information.”

But I wasn’t there to focus on the asymmetry of this law. My concern was rooted in the fact that it includes no safeguards to ensure that the discovery material — which often can include very sensitive trade secrets — is protected against disclosure or misuse once it lands in the foreign court (or agency).

This is not an abstract problem, I explained. While U.S. courts regularly issue "protective orders" closely guarding information exchanged in litigation, foreign courts and governments often don't have any similar tools. In fact, most countries' laws are insufficient to protect trade secret rights in general, and even less so when information is in the hands of courts that have to guarantee public access. Even the European Commission, in proposing the EU Trade Secrets Directive to its member states, recognized that Europe had a serious problem, saying that the "main factor that hinders enforcement of trade secrets in Court derives from the lack of adequate measures to avoid trade secrets leakage in legal proceedings."

So if we really want to help our sister courts in other countries, we should send them sensitive information only when we have first wrapped it up in limited use restrictions. That is why I suggested in my testimony to Congress that an important "fix" to Section 1782 would be to require that federal judges consider the risk to U.S. trade secrets when ruling on these petitions. And if they allow the discovery, it should come with serious, specific requirements on how it can be used in the foreign "proceeding" to avoid loss or damage.

Let's hope that closing this loophole is something that both political parties can agree on.

You can read my formal remarks here and watch the entire hearing here.

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